

Setting up investment-friendly products

Ejaz Ali Shah, Managing Director, Pakistan Mercantile Exchange Limited (PMEX) shares his vision and its role in the country with **Tauqeer Muhajir.**
Excerpts:

What is your vision for PMEX and what role do you want PMEX to play in the country?

PMEX is a national institution and is among the most prestigious institutions of the country. Though it may have a short history, the volume of daily trade conducted at the Exchange has often exceeded the value of shares traded at local stock exchanges, which shows the potential that the Exchange enjoys. My vision is to make PMEX a household name by adding products that are investment-friendly to the product portfolio, as well as creating awareness of the Exchange as an alternate investment option. Moreover, we will strive to create opportunities for our members enabling them to expand their reach and provide services that are comparable to the best exchanges of the region.

I recently met Saeed Ahmed, Deputy Governor, State Bank of Pakistan. He mentioned that PMEX has applied for permission to introduce currency futures trading for its customers and the application is under consideration. Please tell us about this product and how it will benefit PMEX.

PMEX intends to launch the International Currency Futures Contracts based on three currency pairs — EUR/USD, GBP/USD, and USD/JPY. Firstly, it is essential to understand that these listings will be extremely beneficial to Pakistan. These futures contracts are globally traded contracts and PMEX has designed these contracts as cash settled contracts in Pakistani rupees (PKR) without any involvement of underlying currencies. All margins for these futures contracts will be collected in PKR and deposited with the Exchange before the initiation of the trade. Settlement for all contracts will also be in PKR. Therefore, listing of these contracts at PMEX will tremendously reduce the outflow of Cash FX from the country by grey market operators, as these operators take margins in dollars, which are moved out of the country through *hundi/hawala*.

Secondly, since investors buy these dollars from the open market, it puts unnecessary pressure on local currency that will be curtailed. Thirdly, PMEX provides a regulated platform, which on one hand protects the investors by offering a fair and transparent trading platform, while on the other hand, contributes to the exchequer by bringing all such activity into the documented sector. In short, this initiative will ensure that the investors are better protected, the country saves the much-needed foreign exchange, besides bringing all such activity in tax net and PMEX being a national institution is strengthened.

In addition to the above, these listings will go a long way in meeting the hedging and price discovery needs of the market participants. Given the greater degree of linkage between markets, ability to trade in international currency markets is essential for portfolio hedging, investment returns and risk diversification. The absence of these contracts on PMEX platform is actually forcing the investors to meet their genuine needs through grey market operators; an anomaly that we feel should be fixed on ASAP basis.

From PMEX's perspective, listing of these contracts will greatly enhance the product portfolio of PMEX. Currency is the largest asset class that is traded world over and is an integral part of the portfolio of commodities exchanges world over. Estimates suggest that average daily trading volume of the grey market operators is many times higher than current average daily volume of PMEX so we expect volumes at PMEX to surge considerably.

There was a report in the media that you are also working on a Murabaha product. Please give us more details about this product.

As you may be aware, the Islamic Financial Industry is growing exponentially in Pakistan. However, the industry is facing difficulty in deploying the excess liquidity in an efficient manner due to unavailability of a reliable vehicle to do so. It is in this context that PMEX de-

ecided to step up and develop a Murabaha contract for the Islamic Financial Industry.

Once this product is launched, Islamic financial institutions will be able to conveniently deploy their liquidity to any corporate, bank (both conventional and Islamic) and government. This will bring them on par with conventional banks and open doors for arbitrage activities as well. We have extensively discussed this product with major Islamic financial institutions, and also organised a roundtable, which was attended by senior officials of the banking industry who appreciated our efforts and are now eagerly waiting for the launch of the product. The product has also been reviewed and certified by a prominent Shariah advisor to be fully Shariah-compliant.

PMEX feels that the keen interest shown by the participants is encouraging. The Exchange is confident that the proposed Murabaha product would greatly strengthen the Islamic financial sector of Pakistan. We envision that the proposed Murabaha product will eventually serve as an industry benchmark and could well become the instrument of choice for Islamic banks.

Presently, all the modalities have been worked out and the Exchange is planning to launch the product as soon as it gets the necessary approval from Securities and Exchange Commission of Pakistan (SECP).

It is said that the gold jewellery producers are, at present, not trading nor buying through PMEX. What is being done to get them to trade



Ejaz Ali Shah, Managing Director, Pakistan Mercantile Exchange Limited

and buy gold through PMEX and further enhance your volumes?

We are actively working to bring the grossly undocumented gold sector into the documented economy. We are talking to the gold wholesalers and the Pakistan

Gems and Jewellery Development Company to bring gold trade to the PMEX platform. We have made recommendations and submitted proposals to the Securities and Exchange Commission of Pakistan (SECP) for Finance Bill 2015 to facilitate the transition of this important sector on to PMEX



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platform. These recommendations/proposals include reduction of duty on import of gold, where gold is imported through PMEX and sold on its regulated and documented platform. We are confident that even with the decrease in import duty, government revenue will increase.

At present, the export of gold from Pakistan in un-worked condition is not allowed. However, gold is being melted to make crude jewellery so it can be exported defeating the purpose of this restriction. Moreover, the export ban has led to price discrepancies between domestic and international markets. We have proposed that export of gold should be allowed as long as the gold is originally imported through PMEX. We believe that these and other suggested measures will not only facilitate in bringing this trade to PMEX, but

will also contribute significantly more to the exchequer.

I believe the SECP has allowed new memberships for PMEX. What are your expectations to attract new members?

We are thankful to the regulator for allowing us to offer new members an opportunity to trade through PMEX and benefit from "The local gateway to Global markets". It is our desire to spread out our members to smaller cities and towns in Pakistan and not be restricted to the bigger cities. We are trying to see that our new memberships are sold to investors from places like Gujranwala, Sialkot, Quetta, Gujrat, Hyderabad, Charsadda, etc.

Pakistan primarily has an agriculture-based economy. How do you plan to take advantage of this fact and what new products are you planning for this sector?

The ultimate goal of PMEX is to work on deliverable contracts of local produce to add value to the food chain and ensure a fair price to the producer. However, this requires significant investment in the infrastructure of the country as well as a complementary legal structure. We have started work in this direction and are working with relevant stakeholders to take it forward. Having said that, we understand that our success is directly dependent upon the implementation of the initiatives discussed, as only a robust and financially strong entity can lead and achieve this goal. We are confident that our current initiatives will provide us strong enough foundation to achieve our ultimate goal.

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